

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Acting Chairman
Tony Hammond, Vice Chairman;
Mark Acton;
Ruth Y. Goldway; and
Nanci E. Langley

Periodic Reporting
(Proposal Ten)

Docket No. RM2015-3

ORDER ON ANALYTICAL PRINCIPLES
USED IN PERIODIC REPORTING
(PROPOSAL TEN)

(Issued January 6, 2015)

I. INTRODUCTION

This Order addresses a Postal Service petition filed pursuant to 39 C.F.R. § 3050.11 seeking approval of Proposal Ten.¹ For the reasons discussed below, the Commission approves Proposal Ten. In addition, consistent with past Commission practice, the Commission is concurrently filing two library references that consist of the revised workshare cost avoidance models approved under Proposal Ten.²

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Ten), November 3, 2014 (Petition).

² The Commission will also update its directory of approved Commission workshare cost avoidance models on its website. See Commission homepage (www.prc.gov), "Information for the Mailing Community," 'Directory of PRC Workshare Cost Avoidance Models.'

This Order describes Proposal Ten; addresses initial and reply comments and related filings; and presents the Commission's analysis and conclusion. A procedural summary appears in the Appendix.

II. BACKGROUND

The Postal Service developed Proposal Ten largely in response to past concerns expressed by previous Public Representatives regarding the quality of productivity estimates developed from a Fiscal Year (FY) 2009 field study. See Petition, Attachment at 1-2. One concern was the accuracy of a proposed new Standard Mail parcel/Not-Flat Machinable (NFM) mail processing cost model given the large standard deviation associated with the FY 2009 field study productivity estimates.³ Later, concerns were expressed about the relatively small sample sizes and high standard deviation values exhibited by some of the productivity estimates in a proposed new Parcel Select/Parcel Return Service mail processing model.⁴ These concerns were reiterated in connection with a revised Standard Mail destination entry cost model that relied upon the same FY 2009 productivity estimates used in the cost models described above, and a new concern was raised that the productivity estimates may no longer be valid due to operational changes during the past five years.⁵ The Commission approved the revised Standard Mail destination entry cost model, but directed the Postal Service to "investigate ways to update its productivity values to ensure that the values best represent its mail processing operations."⁶

³ Docket No. RM2010-12, Public Representative Comments in Response to Order No. 534, October 8, 2010, at 11-12.

⁴ Docket No. RM2011-6, Comments of the Public Representative in Response to Order No. 626, February 3, 2011, at 1-2.

⁵ Docket No. RM2014-6, Initial Comments of the Public Representative, July 28, 2014, at 26-27.

⁶ Docket No. RM2014-6, Order on Analytical Principles Used in Periodic Reporting (Proposals Three through Eight), September 10, 2014, at 22 (Order No. 2180).

III. PROPOSAL TEN: INCORPORATE NEW FIELD STUDY INTO THREE PARCEL MAIL PROCESSING COST MODELS AND THE STANDARD MAIL DESTINATION ENTRY COST MODELS

A. Postal Service Proposal

Summary. The Postal Service proposes that data from a new field study (FY 2014 field study) be incorporated into four models that are filed with its Annual Compliance Report: (1) the Standard Mail parcel mail processing cost model (USPS-FY13-12); (2) the Standard Mail destination entry cost model (USPS-FY13-13); (3) the Media Mail/Library Mail mail processing cost model (USPS-FY13-15); and (4) the Parcel Select/Parcel Return Service mail processing cost model (USPS-FY13-NP15). See Petition, Attachment at 1.

Rationale. The proposal is designed to improve the cost avoidance estimates by using data from an FY 2014 field study conducted at several types of mail facilities. *Id.* at 2.

Current methodology. Currently, the Postal Service uses data from an FY 2009 field study to develop cost avoidance estimates in the four models referenced above. *Id.*

Proposed methodology. The Postal Service proposes to update three types of data for the four models referenced above using data from the FY 2014 field study: (1) productivity data; (2) network distribution center (NDC) postal arrival and dispatch profiles; and (3) mail piece dimension data by mail type. *Id.* at 2-3. Each proposed update is discussed below.

1. Productivity Data

In the FY 2014 field study, the Postal Service observed tasks performed at network distribution centers (NDCs), processing and distribution centers (P&DCs), auxiliary service facilities (ASFs), and delivery units (DUs). As a part of the study, the Postal Service evaluated 26 different tasks. The Postal Service explains that most of the productivity values developed in the FY 2014 field study represented container

movement tasks. *Id.* at 4. The Postal Service states that the time it takes to move a container varies with distance. *Id.* Recognizing that estimated productivity values must capture a representative range of distances moved, the Postal Service applied a statistical test based on the standard deviation calculated for the observations and a 95 percent confidence level. *Id.* at 4-5. According to the Postal Service, the analysis shows that the selected observation size for each of the productivity estimates exceeded the number of observations needed to attain an estimate at the selected confidence level. *Id.*

The Postal Service states that the FY 2014 field study resulted in productivity values for loading and unloading tasks that were “significantly higher” than those measured in the FY 2009 field study. *Id.* at 5. It further observes that while the number of facilities included in the previous study was fairly small, some of the change could be due to the activation of the NDCs. *Id.* The Postal Service elaborates that one focus of the NDC activation process was the timely loading and unloading of trucks. *Id.* In addition, the Postal Service highlights that postal vehicle drivers and highway contract drivers were both regularly observed assisting mail handlers with the loading and unloading of trucks during the FY 2014 field study, but were not observed doing so during the FY 2009 field study. *Id.* The Postal Service states, however, that the time drivers spent assisting mail handlers was not incorporated into the productivity estimates in the FY 2014 field study because those costs are not defined as mail processing costs. *Id.*

Of the 26 tasks measured during the FY 2014 field study, five were new compared to the FY 2009 field study. Four of the five were tasks performed at ASFs.⁷ These tasks were for loading rolling stock; loading pallet/pallet box; unloading rolling stock; and unloading pallet/pallet box. *Id.* The fifth was a task performed at NDCs. *Id.* The Postal Service explains that parcels rejected on the Parcel Sorting Machines (PSM) are typically isolated in rolling stock and sent to an area where a clerk manually applies

⁷ Four of the Postal Service’s eight ASFs were included in the FY 2014 field study. *Id.*

a barcode label based on the mail piece address. *Id.* Thus, productivity data was collected for this barcoding operation. *Id.*

The Postal Service proposes three modifications to the mail processing cost models referenced above to accommodate the new productivity values. *Id.* at 5-6. First, the data will be incorporated into the 'Productivity Data' tabs in each cost model. *Id.* at 6. Second, the cost estimates for all ASF tasks within the workbook will be modified to access the ASF productivity values rather than the P&DC productivity values. *Id.* Third, mail flow models that include PSM tasks will be modified to account for the reject processing activities that take place between each PSM handling. *Id.*

The Postal Service proposes that the FY 2014 productivity values be incorporated into the 'Productivity' tab in the Standard Mail destination entry cost model. *Id.* It also proposes to remove extraneous productivity values that are not used to develop any cost estimates in the destination entry cost model. *Id.* Finally, as the destination entry cost model relies on inputs from Standard Mail's mail processing cost model, the Postal Service proposes to update the inputs with the new input values.⁸ *Id.*

2. NDC Arrival and Dispatch Profiles

During the 2014 field study, data collectors recorded the container types that arrived from and were dispatched to P&DCs by NDCs, and also estimated the fullness level of each container. Petition, Attachment at 6. The Postal Service explains that when compared to the profiles from the FY 2009 field study, there were some modest differences regarding the types of containers that were used to move mail, as well as the fullness level of the containers. *Id.* at 7. Thus, the Postal Service also proposes to update postal arrival and dispatch profile data with data from the FY 2014 field study. *Id.*

⁸ See Order No. 2180.

3. Mailpiece Dimension Data

Since the FY 2009 field study, there have been several changes to Standard Mail parcel categories, including the transfer of commercial parcels to Parcel Select as lightweight Parcel Select, the elimination of NFM parcels, and the creation of marketing parcels.⁹ The Postal Service proposes to update the mailpiece dimension data in the mail processing cost models for Standard Mail and Parcel Select with data from the FY 2014 field study to reflect the changes since FY 2009. Petition, Attachment at 7.

B. Proposal Ten Impacts

The Postal Service highlights several impacts from Proposal Ten. First, the Postal Service explains that the results from two of the models are used as inputs to other cost models. Petition, Attachment at 3. More specifically, the results from the Media Mail-Library Mail mail processing cost model are used in the Bulk Parcel Return Service (BPRS) cost model, and the results from the Standard Mail destination entry cost model are used in the Standard Mail Enhanced Carrier Route (ECR) model.¹⁰ Consequently, the Postal Service filed revised BPRS and Standard Mail ECR models with Proposal Ten. Petition, Attachment at 3.

Second, the Postal Service provides tables summarizing the cost impacts of the proposed modifications to the cost models. Summaries of the impacts to the public models are provided in Tables 1 through 5, and a summary of the impact to the non-public model (Parcel Select/Parcel Return Service mail processing cost model) is provided in a non-public folder. See Petition, Attachment at 9-13; Folder USPS-RM2015-3/NP1, Excel file "PROP.10.IMPACT.NONPUB.xlsx."

⁹ See Docket No. MC2010-36, Order No. 689, Order Conditionally Granting Request to Transfer Commercial Standard Mail Parcels to the Competitive Product List, March 2, 2011, at 2 n.4.

¹⁰ See Preface to Folder USPS-RM2015-3/1, Public Material Relating To Proposal Ten, November 3, 2014.

Third, in response to Chairman's Information Request (CHIR) No. 1, the Postal Service quantifies the impact the proposal would have on Standard Mail and Package Services workshare cost avoidances. See Response to CHIR No. 1, question 2.¹¹

C. Comments/Reply Comments

1. Public Representative Comments

The Public Representative states that the Postal Service's FY 2014 field study represents an improvement in the development of cost estimates for parcel mail processing costing models and the Standard Mail Destination Entry Cost model.¹² PR Comments at 5. She also states that the Postal Service relies on statistically sound data to update the productivity values. *Id.* However, she believes that there are concerns regarding the validity of the significantly higher productivity values developed from the FY 2014 field study compared to the FY 2009 field study. *Id.* She also concludes that the Postal Service does not explain whether the higher productivity values represent permanent changes in loading and unloading tasks. *Id.* at 6. Thus, she concludes that the record lacks sufficient data to justify the proposal and suggests that the Commission refrain from granting approval of Proposal Ten until more relevant information is included in the record. *Id.* She recommends that given the complexities of the differences between the field studies and the notable changes in productivity values, the Commission should schedule a technical conference to address the outstanding issues of Proposal Ten. *Id.*

2. Reply Comments

The Postal Service asserts that the Public Representative's concerns are misplaced because she focuses on anecdotal comments which would only apply, at

¹¹ Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 1, November 25, 2014, question 2 (Response to CHIR No. 1).

¹² Initial Comments of the Public Representative, November 26, 2014 (PR Comments).

most, to six of the 26 tasks for which productivity data was collected.¹³ Postal Service Reply Comments at 4-5. The Postal Service notes that in three prior rulemaking dockets, each Public Representative expressed concerns with the FY 2009 productivity estimates due to small sample sizes and variation within the data, and that the 2014 field study was designed to address those concerns. *Id.* at 5. The Postal Service believes that a comparison of the FY 2009 and FY 2014 results, as the Public Representative suggests, makes little sense because a major operational event occurred (activation of the NDCs) between the two studies. *Id.* Furthermore, the Postal Service states that even if the FY 2009 estimates were accurate at the time, differences between the FY 2009 and FY 2014 data would be expected because a major focus of the NDC activation process was the timely loading and unloading of trucks. *Id.*

With regard to the Public Representative's focus on anecdotal comments about truck drivers assisting mail handlers with loading and unloading tasks, given the relatively small number of facilities included in the FY 2009 field study, the Postal Service believes it is likely that truck drivers were assisting mail handlers at P&DCs and DUs around the country during the FY 2009 timeframe, but such activities were not observed at the facilities where the FY 2009 field study data was collected. *Id.* at 6. Subject to time and budget constraints, when future systemic changes occur, the Postal Service states that it will modify the productivity estimates presented in Proposal Ten. *Id.* Therefore, the Postal Service concludes that the issues raised by the Public Representative provide no valid basis for questioning the statistically significant data, and that the Commission should approve Proposal Ten. *Id.* at 7.

D. Commission Analysis

The Commission approves Proposal Ten. The use of the productivity data, NDC postal arrival and dispatch profile data, and mail piece dimension data from the FY 2014

¹³ Reply Comments of the United States Postal Service, December 2, 2014 (Postal Service Reply Comments).

field study are reasonable. As noted by the Public Representative, the FY 2014 field study represents an improvement in the development of cost estimates for parcel mail processing costing models and the Standard Mail destination entry cost model. The number of facilities included in the study and the number of productivity readings recorded for the specific tasks are much larger compared to the FY 2009 field study. Using a statistical test, the Postal Service demonstrated that it had selected enough observations to develop a productivity estimate for each of the 26 tasks consistent with its selected confidence level.¹⁴

The Commission is not persuaded by the Public Representative's concerns regarding the validity of the significantly higher productivity values that were calculated from the FY 2014 field study. First, as the Postal Service emphasizes in its reply comments, the Public Representative's comments appear to apply, at most, to six of 26 observed tasks. Second, as the Postal Service also emphasizes, it is likely the higher productivity values can be attributed to the NDC activation because a major focus of that effort was timely loading and unloading of trucks. Third, the Commission agrees with the Postal Service that it is possible that truck drivers at P&DCs and DUs were assisting mail handlers with the loading and unloading of rolling stock during the FY 2009 timeframe, but the Postal Service did not observe this activity due to the relatively small number of facilities in the FY 2009 field study.

The Commission approves the use of the new productivity values developed from the FY 2014 field study, based, in part, on the Postal Service's representations that the NDC activation process is the likely reason for higher productivity values, that there is no known plan that has been implemented since the FY 2009 field study instructing drivers to begin assisting mail handlers, and that there is no known future plan that might affect the interaction between truck drivers and mail handlers. Overall, the

¹⁴ Because the sampled facilities and the sampled tasks were not based on the probability sample, the statistical analysis is not valid. However, the analysis does demonstrate that the Postal Service's estimates likely capture a sufficient number of observations reflecting the range of distances in these container movements.

FY 2014 field study provides recent data reflecting current operations based on a greater number of facilities than the previous study. For these reasons, the Commission approves the use of the data from the FY 2014 field study.

IV. ORDERING PARAGRAPH

It is ordered:

For purposes of periodic reporting to the Commission, the Commission accepts the changes in analytical principles proposed by the Postal Service in Proposal Ten.

By the Commission.

Shoshana M. Grove
Secretary

PROCEDURAL SUMMARY

On November 3, 2014, the Postal Service filed a petition pursuant to 39 C.F.R. § 3050.11 seeking initiation of a proceeding to consider proposed changes in analytical principles. The subject of the Petition is Proposal Ten, A Proposal to Incorporate New Field Study Data into Three Parcel Mail Processing Cost Models and the Standard Mail Destination Entry Cost Model.¹ The Postal Service concurrently filed supporting workpapers and an application for non-public treatment of certain material it considers confidential business information.²

On November 5, 2014, the Commission issued Order No. 2240 establishing the instant docket for consideration of the Petition, designating an officer of the Commission (Public Representative) to represent the interests of the general public, and establishing dates for filing initial and reply comments.³

The Commission issued, and the Postal Service responded to, one information request.⁴ The information request reflected, in part, Commission consideration of a Public Representative's motion.⁵

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Ten), November 3, 2014 (Petition).

² See Notice of Filing of USPS-RM2015-3/1, USPS-RM2015-3/NP1, and Application for Nonpublic Treatment, October 31, 2014.

³ Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Ten), November 5, 2014 (Order No. 2240).

⁴ See Chairman's Information Request No. 1, November 19, 2014 and Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 1, November 25, 2014. See *also* Motion for Late Acceptance of the Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 1, November 25, 2014 (Motion). The Motion is granted.

⁵ See Public Representative Motion for Issuance of Information Request, November 7, 2014.

The Public Representative filed initial comments on November 26, 2014.⁶ The Postal Service filed reply comments on December 2, 2014.⁷ No additional comments were received.

Following consideration of the Petition and related filings in this docket, the Commission approved Proposal Ten. The Commission concurrently filed two library references supporting its decision.⁸ The library references consist of the revised workshare cost models approved under Proposal Ten.

⁶ Initial Comments of the Public Representative, November 26, 2014.

⁷ Reply Comments of the United States Postal Service, December 2, 2014.

⁸ See Notice of Filing of Library References PRC-LR-RM2015-3/1 and PRC-LR-RM2015-3/2, January 6, 2015. The first library reference is labeled Revised Destination Entry, Parcel Mail Processing and Enhanced Carrier Route (ECR) Cost Models for Standard Mail. The second library reference is labeled Revised Mail Processing Cost Model for Media Mail and Library Mail.